US Market Wrap - 19th September 2024

Stocks rally in Fed aftermath but bonds hit on US data

- **SNAPSHOT**: Equities up, Treasuries down, Crude up, Dollar down.
- **REAR VIEW**: Jobless Claims fall, Philly Fed beats with upside in prices and employment; Heightened Middle East tensions; BoE holds rates in a 8-1 vote split with Dhingra the dovish dissenter; Strong Aussie employment data; 'Hawkish' Norges Bank hold; BCB hikes by 25bps, CBRT leaves rates unchanged, SARB cuts by 25bps, all as expected; Mercedes Benz cuts FY guidance; INTC has no plans to divest majority stake in MBLY; Cautious SKX comments.
- **COMING UP**: **Data**: UK GfK Consumer Confidence, Japanese CPI, Chinese LPR, UK Retail Sales, Canadian Producer Prices, Retail Sales, EZ Consumer Confidence **Events**: BoJ Policy Announcement; Quad Witching **Speakers**: Norges Bank Longva, Bache; BoE's Mann; BoC's Macklem; ECB's Lagarde; Fed's Harker & Bowman **Supply**: Australia.

MARKET WRAP

Stocks ground higher throughout Asia, Europe and the US sessions to see the E-mini S&P futures test 5,800 to the upside at its peaks in response to Wednesday's 50bp rate cut from the Federal Reserve. The upside was led by the Nasdaq which closed up c. 2.5% with the Tech sector closing +3%, while Communication Services and Consumer Discretionary were also outperformers. The only sectors in the red were the defensives, with Real Estate, Utilities and Staples lagging. Bonds saw gains in the APAC and European session but were sold in response to the US data where jobless claims saw a notable fall while the Philly Fed survey beat expectations with strong gains in both employment and prices paid. Existing home sales saw a slight decline but it had little impact. In FX, Yen, Swissy and Dollar underperformed while AUD, NZD and GBP outperformed after strong Aussie jobs, strong Kiwi GDP and a hawkish hold from the BoE with all benefitting from the upside in equities. Despite the risk on trade, gold prices continued to push higher. Crude was also bid on heightened geopolitical tensions and Dollar weakness.

US DATA

JOBLESS CLAIMS: The Initial Jobless Claims data for the week coinciding with the usual BLS survey window fell to 219k from the prior 231k, beneath the expected 230k. The 4wk average fell to 227.5k from 231k. Note, unadjusted data saw initial claims at 185k, rising from the prior 179k. Seasonal factors had expected a 16k increase. Pantheon Macroeconomics highlights that the sharp drop on the headline is likely due to a defective seasonal adjustment, rather than a sudden improvement in labour market conditions. Continued claims for the preceding week, fell to 1.829mln from 1.843mln (revised down from 1.85mln), and beneath the expected 1.854mln. Looking ahead, Pantheon highlighted that leading indicators of layoffs remain unalarming, WARN notices were in line with the 12mth average, while the three month average of Challenger layoff announcements has declined materially since spring. The desk "continue to think that the unemployment rate will rise further, ending 2024 at about 4.7% and peaking just above 5% towards the end of next year". This is above the latest median forecasts from the Fed's Summary of Economic Projections, which has unemployment at 4.4% by year-end, and also at 4.4% by end of 2025.

PHILLY FED: Philly Fed surprisingly rose into positive territory at 1.7, above the expected, -1.0, and the prior, -7.0. The internals were more mixed as Employment jumped to 10.7 from -5.7 but New Orders turned negative printing -1.5 from +14.6. The inflationary gauge of Prices Paid lifted to 34.0 (prev. 24.0) while Capex rose to 25.0 (prev. 12.0). Looking ahead the 6m index marginally rose to 15.8 from 15.4. Overall, and as put by the report, responses to the September survey suggest mixed regional manufacturing activity this month. The indicator for current activity rose to positive territory, while the new orders and shipments indexes declined and turned negative. On balance, the firms indicated an increase in employment and continued to report increases in prices. The survey's broad indicators for future activity suggest more widespread expectations for growth over the next six months.

EXISTING HOME SALES: Existing home sales fell in August by a larger magnitude than was expected to a 10-month low of 3.86mln (exp. 3.9mln, prev. 3.96mln) amid three out of the four major US regions posting sales declines while the Midwest showed no change. Inventory of homes for sale rose by 0.7% to 4.2 months worth' from the prior 4.1 months and the median existing-home sales price rose 3.1% Y/Y to USD 416,700. NAR Chief Economist Yun noted "the recent development of lower mortgage rates coupled with increasing inventory is a powerful combination that will provide the environment for sales to move higher in future months". Yun added "The rise in inventory – and, more technically, the accompanying months' supply – implies home buyers are in a much-improved position to find the right home and at more favorable prices." Going forward, Oxford Economics believes the pickup in mortgage applications points to an increase in existing home sales in September and October, pushing home sales above 4mln later this year and above 4.5mln in H2 '25.

CENTRAL BANKS

BOE REVIEW: As expected, the MPC opted to keep the Base Rate at 5.0% after delivering a 25bps rate cut at the prior meeting. The decision to maintain policy settings was made via an 8-1 vote (vs. consensus 7-2) with Dhingra the lone dissenter in voting for a rate cut. Within the consensus that backed an unchanged rate, "there was a range of views among these members on the degree to which the unwinding of past global shocks, the normalisation in inflation expectations and the current restrictive policy stance would lead underlying domestic inflationary pressures to continue to unwind". For most members, it was noted that "in the absence of material developments, a gradual approach to removing policy restraint would be warranted". This view was echoed by Governor Bailey who remarked that the MPC must be careful not to cut rates too fast, or by too much. Furthermore, the policy statement reiterated that policy "will need to continue to remain restrictive for sufficiently long". Aside from the rate decision, the MPC also voted unanimously to reduce the stock of Gilts by GBP 100bln between October 2024 and September 2025 (as expected). Note, the BoE refrained from including sales of 1-3 year maturity Gilts. Overall, the tone of the policy statement was one of caution with the MPC very much in data-dependent mode. This prompted a hawkish repricing for the rest of the year with just a 64% chance of a cut seen in November (vs. 100% pre-release) and a total of 40bps of easing seen by year-end (vs. 52bps pre-release). Pantheon Macro sees just one cut for the rest of the year with the MPC likely to prefer November on account of it being an MPR meeting. In wake of the meeting, Governor Bailey was on the wires and noted he is optimistic that UK interest rates will fall further, though further evidence is required, while he needs to see residual inflation pressures disappear. The Governor added it is imperative that the UK improves its current potential growth of 1.2-1.3%. Regarding QT, Bailey is "very relaxed" that the gov't will take the right decision on the treatment of QT within fiscal rules, and will have no impact on BoE policy.

FIXED INCOME

T-NOTE (Z4) SETTLED 11 TICKS LOWER AT 114-23+

T-Notes sold off with the curve flattening after strong US data . At settlement, 2s -0.9bps at 3.594%, 3s +0.4bps at 3.479%, 5s +2.8bps at 3.493%, 7s +3.7bps at 3.604%, 10s +3.9bps at 3.726%, 20s +4.3bps at 4.116%, 30s +5.3bps at 4.061%

INFLATION BREAKEVENS: 5yr BEI +6.4bps at 2.191%, 10yr BEI +4.9bps at 2.157%, 30yr BEI +4.4bps at 2.170%.

THE DAY: T-Notes were bid overnight as APAC reacted to the 50bp rate cut from the Fed on Wednesday with T-Notes hitting intraday highs of 115-02+ in the European morning. The bid faded however after the jobless claims data saw a surprise fall to 219k from the prior 231k, despite expectations for a 230k print. At the same time, the Philly Fed data beat expectations with notable increases in prices and employment. The data took T-Notes to lows of 114-16 before a gradual bid was seen ahead of existing home sales. The housing data saw a slight miss but had little impact on with Treasuries meandering into settlement. Elsewhere, the 10yr TIPS auction was strong but still saw a slight tail. The latest buyback operation from the Treasury in 1mth to 2yr coupons accepted the maximum amount of USD 5bln but saw over USD 26bln of offers. Attention next week turns to supply (see below) while attention on Friday turns to the resumption of Fed Speak with remarks expected from Fed's Governor Bowman expected, who dissented on Wednesday's 50bp move, opting for a 25bp rate cut instead.

NEXT WEEK SUPPLY: US to sell USD 69bln of 2yr notes on September 24th, USD 70bln of 5yr notes on September 25th and USD 44bln of 7yr notes on September 26th; all to settle September 30th; as expected. US to sell USD 28bln of reopened 2yr FRNs on September 25th, to settle September 27th.

STIRS:

- Market Implied Fed Rate Cut Pricing: November 36bps (prev. 33bps D/D), December 73bps (prev. 71bps), January 107bps (prev. 103bps)
- US sold USD 80bln in 4-week bills at 4.700%, covered 2.87x; sold USD 80bln in 8-week bills at 4.690%, covered 2.80x
- US to sell USD 70bln in 26wk bills and USD 76bln in 13wk bills on September 23rd; to settle September 26th
- NY Fed RRP OP demand at USD 312bln (prev. 306bln) across 52 bidders (prev. 63)
- SOFR at 5.33% (prev. 5.38%), volumes at USD 2.194tln (prev. 2.161tln).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 102bln (prev. 103bln).

CRUDE

WTI (X4) SETTLED USD 1.04 HIGHER AT 71.95/BBL; BRENT (X4) SETTLED USD 1.23 HIGHER AT 74.88/BBL

The crude complex saw gains as it benefited from the broader post-Fed risk-on sentiment and heightened geopolitical risk. On the latter, there was a lot of back and forth between the Middle East counterparties, whereby the Hezbollah Chief gave an address and he noted Israel's attacks on Tuesday and Wednesday will meet a 'just punishment' amongst other remarks. Iran's Revolutionary Guards commander Salami told the Hezbollah chief that Israel will face a crushing response from the axis of resistance, and Lebanese Ministers warn of a dangerous next 48 hours after pager and device attacks, according to CNBC. On the other side, there was plenty of Israeli rhetoric and the military chief noted they have approved plans for the northern area and are approving plans to continue the war, while the Defense Minister stated Hezbollah feels hounded and will pay an increasing price and military actions will continue. From the US, Secretary of Defense Austin postponed his visit to Israel planned for early next week due to the escalation on the Israeli-Lebanese border, two Israeli officials briefed on the matter told Axios. WTI and Brent settle just off peaks of USD 71.53/bbl and 75.18/bbl, respectively. Note, desks continue to flag potential headwinds from sluggish Chinese demand, although reports this morning suggested Chinese policymakers will likely step up measures to at least help the economy meet its 2024 growth target with more focus on boosting demand to fight deflationary pressures.

EQUITIES

CLOSES: SPX +1.70% at 5,714, NDX +2.56% at 19,840, DJIA +1.26% at 42,025, RUT +2.10% at 2,253.

SECTORS: Technology +3.08%, Consumer Discretionary +2.2%, Communication Services +1.88%, Industrials +1.75%, Materials +1.49%, Energy +1.22%, Financials +1.17%, Health +0.35%, Real Estate -0.23%, Utilities -0.57%, Consumer Staples -0.58%.

EUROPEAN CLOSES: DAX: +1.54% at 19,000, FTSE 100: +0.91% at 8,329, CAC 40: +2.29% at 7,615, Euro Stoxx 50: +2.24% at 4,944, AEX: +1.77% at 908, IBEX 35: +0.80% at 11,778, FTSE MIB: +1.16% at 34,045, SMI: +0.75% at 12,067, PSI: -0.51% at 6,720.

STOCK SPECIFICS:

- **Darden Restaurants (DRI):** Posted weak earnings but entered an exclusive multi-year delivery partnership with Uber set to begin with Olive Garden in late 2024.
- **FactSet Research Systems (FDS):** Adj. EPS and revenue exceeded analysts' expectations.
- **Port Strikes:** A potential dockworkers' strike on the US East Coast and the Gulf of Mexico could disrupt goods flow immediately, affecting about half of US imports. Retailers and manufacturers are shifting cargo to the West Coast to mitigate risks.
- **Apple (AAPL):** T-Mobile CEO Sievert noted that sales of the iPhone 16 compared to last year's model are higher, with strong demand for higher-end versions, CNBC reports.
- **Mobileye Global (MBLY): Intel (INTC)** currently doesn't have any plans to divest a majority interest in Mobileye.
- **Alibaba (BABA):** Alibaba Cloud announced the release of over 100 Qwen 2.5 large language models to the open-source community at the Apsara Conference.
- **DoorDash (DASH):** Upgraded to 'Buy' from 'Neutral' at BTIG, noting growth still looks strong in the third quarter despite concerns about a weakening customer.
- **Salesforce (CRM): Disney (DIS)** to stop using Salesforce-owned Slack after the hack that exposed co. data, according to WSJ.
- **Skechers (SKX):** Saw downside with it being attributed to remarks about operating margins and cautious commentary on China trends in the near term at the Wells Fargo conference. Remarks also weighed on **Nike (NKE).**

US FX WRAP

The Dollar was weaker on Thursday and continued to be hit by the 50bps cut from the Federal Reserve on Wednesday, which sparked another day of risk-on action. Elsewhere, newsflow was actually pretty sparse and it very much seemed to be the calm after the storm although there was a bit of US data. Briefly recapping, initial jobless claims printed 219k, underneath the expected 230k, and the prior 231k, while Philly Fed also topped expectations at 1.7 (exp. -1.0, prev. -7.0), with the internals mixed, employment and prices saw a notable increase. Looking to Friday, Harker is scheduled to speak while dissenter Bowman should also make remarks to explain her 25bp dissent.

Activity currencies all saw gains against the Buck, albeit to varying degrees as they profited off the risk-on sentiment, as the **Aussie** outperformed as it was also boosted by strong Australian jobs data overnight, although a lot of the increase was driven by part-time jobs. For the **Pound**, the BoE kept the Base Rate at 5.0%, as expected, however, the decision to do so was via an 8-1 vote (exp. 7-2) with Dhingra the lone dovish dissenter. Furthermore, most members think a gradual pace to rate cuts is warranted and as such prompted a hawkish repricing with a November cut no longer fully priced. Cable went as high as 1.3314; highest level since March 2022. The **Kiwi** was buoyed by aforementioned sentiment and Dollar selling, as opposed to anything currency specific and likewise for the **Loonie**, although saw some additional tailwinds from the bid in oil amid heightened geopolitical tensions.

EUR was firmer off the coattails of the weaker Buck, as the single currency lacked any specific tailwinds although there was a deluge of ECB speak. The dovish Panetta noted interest rate reductions by the ECB could accelerate in the next months, while Knot said there is room for further cuts if the inflation outlook holds. Elsewhere, Germany's Bundesbank said the economy could shrink or stagnate in Q3 and a recession is not expected at present.

NOK saw Norges Bank hold rates at 4.5% as expected in what could be perceived as a "hawkish hold". While the rate projections were adjusted and the timing of the first cut brought forward from Q2 2024 the adjustment was of a smaller magnitude than widely expected heading into the announcement. The new path/commentary implies a first cut in Q1 ‘25, a quarter earlier than the June MPR's view but more hawkish than expected heading into the release. EUR/NOK fell from 11.70 to 11.6657 in an immediate reaction before extending to an 11.6517 session low.

EMFX was mixed. **ZAR** was flat and **MXN** saw slight losses which resulted them in being the underperformers. In terms of Central Bank decisions, BCB hiked the Selic interest rate by 25bps to 10.75%, as expected, in a unanimous decision and stated the pace of future adjustments and overall adjustment magnitude will be guided by the firm commitment of reaching the inflation target. CBRT maintained its Weekly Repo Rate at 50%, as anticipated, and the bank added "The tight monetary stance will be maintained until a significant and sustained decline in the underlying trend of monthly inflation is observed" and also removed explicit reference to further tightening. Lastly, SARB cuts rates to 8.00% from 8.25%, as Wall St. expected, in a unanimous decision.

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